Province of Prince Edward Island

# Civil Service Superannuation Fund

# Annual Report 2001/2002

103-03114/

The Honourable J. Léonce Bernard
Lieutenant Governor of Prince Edward Island
PO Box 846
Charlottetown, PE C1A 7L9

May it Please Your Honour:

In accordance with Section 6 of the *Civil Service Superannuation Act*, I am pleased to present to you the Annual Report of the Province of Prince Edward Island Civil Service Superannuation Fund for the fiscal year ended March 31, 2002.

Respectfully submitted,

Patricia J. Mella,
Provincial Treasurer

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# Introduction

The Civil Service Superannuation Fund (CSSF) was established in 1945 to provide retirement allowances to civil service retirees, and to the dependents of deceased retirees, in accordance with the *Civil Service Superannuation Act* (CSSA).

# Fund Description and Administration

## *Description*

The Civil Service Superannuation Fund is a contributory defined benefit pension plan financed by equal contributions from participating employers and employees, and by investment earnings from the Master Trust Investment Fund. The Civil Service Superannuation Fund and the Canada Pension Plan are integrated when a retiree is 65. In 2001/2002 members of the Plan contributed 8.75% of their first $3,500 (CPP's basic exemption threshold) of pensionable income, 6.95% on earnings from $3,501 to $38,300 (CPP's Yearly Maximum Pensionable Earnings [YMPE] for 2001), and 8.75% of their salary in excess of the YMPE.

**Normal Retirement Pension** – a monthly pension is payable for life to a member who has attained the age of 60 with five or more years of pensionable service. The benefit is calculated as 2.0% for each year of pensionable service times the average of the three highest years of pensionable earnings, to a maximum of 35 years. Please note that for salary below the CPP's Yearly Maximum Pensionable Earnings the 2% benefit is comprised of:

a) a 1.3% lifetime benefit, and
b) a bridge benefit of 0.7% from the date of retirement to age 65.

**Early Retirement** – eligible members can opt for an early retirement pension benefit at age 55. In these cases, the pension amount is reduced by the lessor of:

a) 3% for each year prior to age 60, or
b) 3% for each year prior to attaining 30 pensionable years.

For those members with a minimum age of 55 and at least 30 years of pensionable service, the above penalty is waived.

**Inflation Protection** – pensions are increased to the Consumer Price Index to a maximum of 6% on the first day of April of each year.

**Benefits on Termination**

- for vested members: a deferred pension or a refund of employee contributions plus interest;
- for non-vested members: a refund of employee contributions plus interest.

## *Administration*

Administration of the CSSA is assigned to the Employee Benefits Section; Corporate Services, Systems and Administration Division; PEI Public Service Commission. The CSSF's assets are managed independently by professional fund managers. Diagram 1 shows the CSSF balance from 1997 to 2002. The balance of the CSSF in 2002 was approximately $436 million, up from $392 million in 2001.

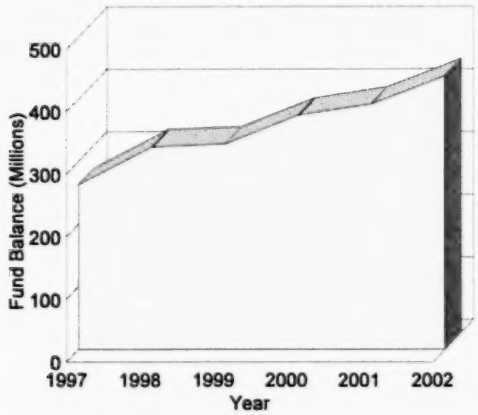


***Diagram 1***
***CSSF Balance***

**Employers** – There are 19 different employers participating in the CSSF, with a total of approximately 3,000 employees. The Province of PEI is the largest employer with 2,000 contributors, the five health regions have a combined total of 600 contributors, two insurance companies contribute for 150 employees on long-term disability claims, and the remaining 250 contributors are employed with 11 other agencies. The number of contributors to the CSSF, as at March 31 of the given years, are displayed in Diagram 4.

**Contributions** – Regular contributions are made to the CSSF via payroll deductions. Other contributions include: special payments from the Province; payments for prior service; and transfers in from other plans via reciprocal agreements.
Diagram 2 depicts regular employer and employee contributions made to the CSSF by year as well as the special payments made annually by the Province. In 2002, the regular contributions from both the employer and employee combined were approximately $17.2 million.

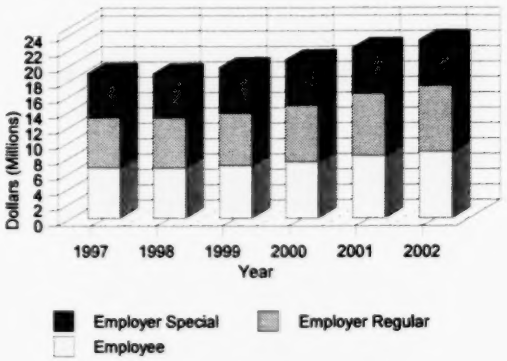


***Diagram 2***
***Contributions and Special Payments***

**Special Payments** – In 1994, Government committed to a 10-year series of payments to help address the underfunded status of the Plan. As of April 1, 2001, special payments, with interest, made to the CSSF totalled $40.88 million. Three remaining special payments of $5.93 million are to be paid into the CSSF on April 1 of each fiscal year beginning April 1, 2002, and ending April 1, 2004.

**Pension Payments** – Annual pension payments increased from $13,217,190 in 1997 to $17,234,733 in 2002. This is shown in Diagram 3. The respective average number of persons receiving pension increased from 1,180 in 1997 to 1,341 in 2002. The number of pensioners are depicted in Diagram 4.

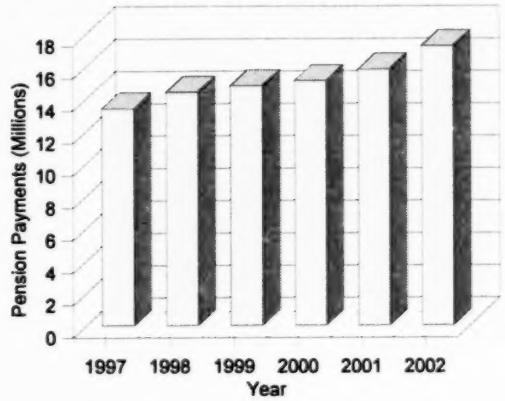


***Diagram 3***
***Pension Payments***

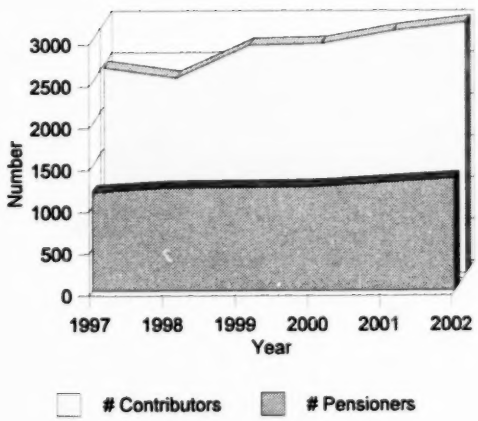


***Diagram 4***
***Contributors vs Pensioners***

**Actuarial Requirement** – Federal legislation requires that an actuarial valuation be performed once every three years to evaluate the funding status of the CSSF. Actuarial valuation reports require best estimate assumptions about future events to determine the actual value of Fund assets and liabilities.

The most recent actuarial valuation was completed as of April 1, 1999. At the time of writing this report, the preliminary results of the actuarial valuation of the CSSF as of April 1, 2002, indicates there is an unfunded liability of $43.8 million.

# Highlights for 2001/2002

**Act/Regulations** – the *Civil Service Superannuation Act* and Regulations (CSSA) were amended as follows:

1) The CSSA Regulations were changed to allow employees who have taken maternity/paternity leaves to purchase this time and have it count as pensionable service for retirement purposes.

2) The CSSA adopted amendments and regulations to provide temporary exemptions from suspension of pension benefits upon re-employment with a participating employer. These temporary exemptions shall be granted by Executive Council to certain classes of pensioners and are intended to address labour market shortages.

## *Other Initiatives*

1) **Reciprocal Transfers:**
The CSSA entered into a bilateral reciprocal transfer agreement with the Federal Government of Canada in July 2001; in January 2002 the CSSA entered into a bilateral reciprocal transfer agreement with the Uniform Hospital Plan of PEI; and the Province of Quebec was added to the new multilateral Provincial Reciprocal Transfer Agreement in February 2002.

2) **Individual employee statements** were printed from the new Pension Administration System (ARIEL) for the majority of civil service employees, with the exception of those who have employment history with the health regions. ARIEL began live production of certain types of calculations in February 2002.

3) **A Voluntary Retirement Program** was offered to employees of the PEI Civil Service, PEI Liquor Control Commission, Museum & Heritage Foundation, Auditor General's Office and the Public Service Commission in February 2002. Approximately 300 employees expressed interest in the program with 138 employees retiring.

4) **Transfer from the Pension Plan for Part-time Employees**: Effective January 1, 2000, the Part-time Employees Pension Plan was closed and preparations were made to transfer the pension benefits to either the CSSF or the Uniform Hospital pension plan. In August 2001, the CSSF received $7.7 million from the Part-time Employees Pension Plan. This transfer resulted in the consolidation of full-time and part-time benefits for approximately 360 active CSSF members.

**Investment Management** – The largest increase to the Civil Service Superannuation Fund normally comes from investment income. These investments are held in the Province of Prince Edward Island Master Trust. The Civil Service Superannuation Fund (CSSF), MLA Pension Funds and the Teachers' Superannuation Fund participate in the Master Trust. In 2002 approximately 58.6% of the funds in the Master Trust were assets of the CSSF. The average rate of return of the Master Trust in 2002 was +7.39%.

The Fiscal Management Division of the Department of the Provincial Treasury provides investment management support for the Province of Prince Edward Island Master Trust.

**Fund Managers** – Responsible for the CSSF's investments as at March 31, 2002 were:

- Sceptre Investment Counsel Limited;
- Beutel Goodman & Company Ltd;
- McLean Budden Limited;
- Northwater Capital Management Inc; and
- Templeton Management Limited.

**Increase in Fund Assets** – during 2001/2002 there was a net contribution to fund assets of $44,448,503. Table 1 shows the total increases in assets, by source, which totalled $63,955,900 along with the percentage each source is of the total increase. Table 2 shows the decreases, which totalled $19,507,397.

***Table 1***
***Increase in Assets***

| Type | Amount | % |
|---|---|---|
| Employer Contributions | $8,596,212 | 14% |
| Employee Contributions | $8,596,212 | 14% |
| Special Payment | $5,926,605 | 8% |
| Investment Income | $15,150,135 | 24% |
| Transfer from Other Plans | $10,144,066 | 16% |
| Market Value Increase/Decrease | $14,930,368 | 23% |
| Other | $612,302 | 1% |
| **Total** | **$63,955,900** | **100%** |

***Table 2***
***Decrease in Assets***

| Type | Amount | % |
|---|---|---|
| Benefits Paid | $17,237,163 | 89% |
| Transfers | $221,304 | 1% |
| Administration | $275,626 | 1% |
| Division of Benefits Upon Marriage Breakdown | $271,346 | 1% |
| Investment Management Fees | $1,048,741 | 5% |
| Refunds | $453,217 | 3% |
| **Total** | **$19,507,397** | **100%** |

# Administrative Advisory Committee

The Administrative Advisory Committee advises the Provincial Treasurer on administrative pension issues and provides a forum for the purposes of reviewing issues which may arise in the administering of the plan. This forum permits open consultation on matters relating to the CSSA.

The six-member committee is made up of representatives from the following:

- 1 – Secretary to Treasury Board (Chairperson)
- 2 – Union of Public Sector Employees
- 1 – Comptroller's Office
- 1 – Department/division responsible for fund administration
- 1 – Health and Social Services

# Master Trust Investment Advisory Committee

The Master Trust Investment Advisory Committee provides advice to the Provincial Treasurer in order to protect the principal assets of the Master Trust; monitor costs; make recommendations on investment fund asset mix; review performance standards of the investment fund and their respective fund managers; and to ensure compliance with both federal and provincial requirements relating to ownership of foreign equities.

The committee is comprised of a chairperson (Deputy Provincial Treasurer), along with representatives from the following:

- 3 – Prince Edward Island Teachers' Federation
- 5 – Provincial Government
- 1 – Excluded Employee Group
- 2 – Union of Public Sector Employees
- 1 – Retired Union of Public Sector Employee
- 1 – Member of the Legislative Assembly
- 3 – Ex-officio outside designates

# Audit Requirement

In accordance with Section 13, of the *Audit Act*, the financial statements have been examined by the Office of the Auditor General whose report is included in this annual report.

# Appendixes

# AUDITOR GENERAL

CHARLOTTETOWN

PRINCE EDWARD ISLAND

## PROVINCE OF PRINCE EDWARD ISLAND

## CIVIL SERVICE SUPERANNUATION FUND

## FINANCIAL STATEMENTS

## MARCH 31, 2002

# AUDITOR GENERAL

CHARLOTTETOWN
PRINCE EDWARD ISLAND

## AUDITOR'S REPORT

Honourable Patricia J. Mella
Provincial Treasurer
Province of Prince Edward Island

I have audited the statement of net assets available for benefits of the Civil Service Superannuation Fund as at March 31, 2002 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Provincial Treasurer. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2002 and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.

Colin Younker, CA
Auditor General

Charlottetown, Prince Edward Island
November 7, 2002

STATEMENT 1

# PROVINCE OF PRINCE EDWARD ISLAND

## CIVIL SERVICE SUPERANNUATION FUND

## STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

## AS AT MARCH 31, 2002

| | 2002 | 2001 |
|---|---|---|
| **ASSETS** | | |
| Cash | $ 510,746 | $ 577,893 |
| Receivables | | |
| Contributions receivable - employees | 502,019 | 291,658 |
| Contributions receivable - employers | 619,559 | 727,233 |
| Other | 27,652 | - |
| | 1,659,976 | 1,596,784 |
| Investments (Notes 2b and 3) | 435,294,296 | 390,551,887 |
| Total assets | $436,954,272 | $392,148,671 |
| **LIABILITIES** | | |
| Accounts payable | $ 860,923 | $ 503,825 |
| NET ASSETS AVAILABLE FOR BENEFITS | $436,093,349 | $391,644,846 |

(The accompanying notes are an integral part of these financial statements.)

STATEMENT 2

# PROVINCE OF PRINCE EDWARD ISLAND

## CIVIL SERVICE SUPERANNUATION FUND

## STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

## FOR THE YEAR ENDED MARCH 31, 2002

| | 2002 | 2001 |
|---|---|---|
| **INCREASE IN ASSETS** | | |
| Investment income | | |
| Interest | $ 9,936,129 | $ 10,229,525 |
| Dividends | 5,214,006 | 7,310,682 |
| | 15,150,135 | 17,540,207 |
| Market value increase (decrease) | 14,930,368 | (6,281,258) |
| Contributions (Note 5) | | |
| Employees' contributions | 8,596,212 | 8,081,918 |
| Employers' contributions | 8,596,212 | 8,081,918 |
| Transfers from other plans | 10,144,066 | 2,540,487 |
| Refund repayments | 82,525 | 197,017 |
| Purchased service | 529,777 | 313,831 |
| Government contribution toward unfunded liability (Note 5) | 5,926,605 | 5,926,605 |
| | 33,875,397 | 25,141,776 |
| Total increase in assets | 63,955,900 | 36,400,725 |
| **DECREASE IN ASSETS** | | |
| Administrative expenses | 1,324,367 | 1,339,920 |
| Benefits paid | 17,237,163 | 15,773,982 |
| Refunds | 453,217 | 204,701 |
| Transfers | 221,304 | 1,428,526 |
| Marriage breakdown | 271,346 | - |
| Total decrease in assets | 19,507,397 | 18,747,129 |
| **INCREASE IN NET ASSETS** | 44,448,503 | 17,653,596 |
| **NET ASSETS AVAILABLE FOR BENEFITS AT BEGINNING OF YEAR** | 391,644,846 | 373,991,250 |
| **NET ASSETS AVAILABLE FOR BENEFITS AT END OF YEAR** | $436,093,349 | $391,644,846 |

(The accompanying notes are an integral part of these financial statements.)

PROVINCE OF PRINCE EDWARD ISLAND

CIVIL SERVICE SUPERANNUATION FUND

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2002

1. Description of Plan

The following description of the Civil Service Superannuation Plan is a summary only. For more complete information, reference should be made to the Civil Service Superannuation Act.

a) General
The Plan is a contributory defined benefit plan covering permanent, probationary, provisional and executive employees as defined in the Civil Service Act. In addition, the plan covers employees receiving disability payments under the Employees Long Term Disability Plan. Under the Plan, employees and the employer make equal contributions amounting to 6.95% on that part of salary on which Canada Pension Plan contributions are made and 8.75% on salary when Canada Pension Plan contributions are not required.

b) Pensions
Pensions payable are based on the number of years of service times 2% of the best three years' average salary. Eligibility is subject to age and years of service criteria.

c) Survivors' Pensions
A survivor pension is paid to a spouse and allowances are provided to dependent children of a member who has at least five years of service.

d) Death Refunds
A death refund is payable to the personal representative of an employee where the total of payments to survivors are less than the employee's contributions.

e) Withdrawal Refunds
Upon application, withdrawal refunds of the employee contributions are payable when a member ceases to be employed in the Civil Service.

f) Transfers
Reciprocal transfer arrangements with other pension plans provide for the transfer of contributions and periods of service.

g) Marriage Breakdowns
Upon application, the pension benefits to which a person is entitled may be divided between the person and the spouse or former spouse.

h) Income Taxes
The plan is a Registered Pension Plan as defined in the Income Tax Act and is not subject to income tax.

2. Summary of Significant Accounting Policies

a) Basis of Presentation
These financial statements are prepared on the going concern basis and present the aggregate financial position of the Plan as a separate financial reporting entity independent of the Province and plan members. They are prepared to assist plan members and others in reviewing the activities of the Plan for the fiscal period but do not portray the funding requirements of the Plan or the benefit security of individual plan members.

b) Investments are stated at market value, with the exception of Real Estate Investments which are valued at cost, as reported by the custodian of the Province of Prince Edward Island Master Trust as of March 31, 2002.

3. Investments

Investments as of March 31, 2002 consist of the following:

| | |
|---|---|
| Investment in Province of Prince Edward Island Master Trust | $421,067,581 |
| Investment in short term fund | 13,926,600 |
| Cash held for investment | 300,115 |
| | $435,294,296 |

In April 1994, the investments of the Civil Service Superannuation Fund, MLA Pension Fund, and the Teachers' Superannuation Fund were consolidated into the Province of Prince Edward Island Master Trust. The Pension Plan for the Members of the Legislative Assembly became a participant in the Master Trust in February 1995. Units are held by each of these funds in the Master Trust. As of March 31, 2002 there were 635,347.720 units held in the Province of Prince Edward Island Master Trust, of which Civil Service Superannuation Fund held the following:

| | |
|---|---|
| Units held | 372,496.841 |
| Market value per unit | $ 1,130.39 |
| Total market value held | $421,067,581 |

Investments of the Province of Prince Edward Island Master Trust are as follows:

| | |
|---|---|
| Canadian T-Bills | $ 64,932,933 |
| Other liquid assets (liabilities) | (24,841,060) |
| Bonds, debentures and notes | 245,551,644 |
| Canadian equity securities | 314,254,880 |
| Foreign equity securities | 108,113,410 |
| Accrued income receivable | 4,541,636 |
| Real estate | 5,638,763 |
| Total | $718,192,206 |

3. Investments continued ...

The investments of $718,192,206 include amounts which the five Master Trust Fund managers have invested in their own pooled funds. The March 31, 2002 market values of these investments are as follows:

| | |
|---|---|
| Sceptre Investment Counsel Limited | $ 60,566,303 |
| Beutel Goodman & Company Ltd. | 29,619,470 |
| McLean Budden Limited | 22,096,935 |
| Northwater Capital Management Inc. | 40,453,955 |
| Templeton Management Limited | 44,086,483 |
| Total | $196,823,146 |

4. Obligations for Pension Benefits

The present value of accrued pension benefits was determined using the projected benefit method prorated on service and best estimate assumptions. An actuarial valuation was done as of April 1, 1999 by Morneau Sobeco. The actuarial present values of benefits as at April 1, 1999 and the principal components of change from the previous actuarial valuation as at April 1, 1996 were as follows:

| | |
|---|---|
| Actuarial present value of accrued pension benefits - April 1, 1996 | $292,126,000 |
| Liability adjustments (data corrections) | 9,071,000 |
| Actuarial present value of accrued pension benefits - April 1, 1996 (after adjustments) | $301,197,000 |
| Interest on actuarial present value of accrued pension benefits | 78,430,000 |
| Actuarial present value of benefits accrued in the intervaluation period | 31,725,000 |
| Interest on present value of benefits accrued in the intervaluation period | 3,978,000 |
| Benefits paid | (44,000,000) |
| Interest on benefits paid | (5,527,000) |
| Gain re changes in actuarial assumptions | 475,000 |
| Net experience loss | 1,296,000 |
| Actuarial present value of accrued pension benefits at April 1, 1999 | $367,574,000 |

The economic assumptions used in determining the actuarial value of accrued pension benefits were developed by reference to expected long-term market conditions. Significant actuarial assumptions used in the valuation were:

| | |
|---|---|
| Asset rate of return | 7.9% per annum |
| Basic salary escalation rate (excluding promotional increases) | 4.0% per annum |
| Pension cost of living increases | 3.25% per annum |

The actuarial net asset value used in the valuation was $328,023,000.

5. Funding Policy

In accordance with the Civil Service Superannuation Act, employees are required to contribute as described in Note 1(a). The employer matches employee contributions to the Fund. Under Section 5 of the Civil Service Superannuation Act, payments out of the Fund are guaranteed by the Province of Prince Edward Island. The most recent actuarial valuation prepared by Morneau Sobeco disclosed an unfunded liability as at April 1, 1999 of $39,551,000. The unfunded liability amount of $39,551,000 does not include an allowance for the present value of the future contributions noted below. The present value of remaining special contributions required by the Civil Service Superannuation Act as at April 1, 1999 is $28,558,000. If this present value had been considered for the actuarial valuation balance sheet, the unfunded liability would be $11,001,000.

As of March 31, 2002, the estimated unfunded liability of the Fund for accounting purposes is $10,151,000. This estimate does not include an allowance for the present value of the remaining special contributions. If the present value of the remaining special payments had been considered, as of March 31, 2002, the fund would have an estimated surplus of $5,866,000.

The March 31, 2002 estimate is based on different economic assumptions than the April 1, 1999 valuation. The long term assumptions used in the March 31, 2002 estimate are as follows:

| | |
|---|---|
| Asset rate of return | 7.9% per annum |
| Basic salary escalation rate (excluding promotional increases) | 3.0% per annum |
| Pension cost of living increases | 2.4% per annum |

For the purpose of reducing the unfunded liability of the Fund, an amendment to the Civil Service Superannuation Act requires the Lieutenant Governor-in-Council to pay $63.35 million into the Fund in accordance with the following schedule:

| | |
|---|---|
| April 1, 1995 | $11.6 million |
| April 1, 1996 | 5.75 million |
| March 31, 1998* | 5.75 million |
| April 1, 1998 | 5.75 million |
| April 1, 1999 | 5.75 million |
| April 1, 2000 | 5.75 million |
| April 1, 2001 | 5.75 million |
| April 1, 2002 | 5.75 million |
| April 1, 2003 | 5.75 million |
| April 1, 2004 | 5.75 million |

5. Funding Policy continued...

* An amount equal to the revenue that would otherwise have been earned for the period April 1, 1997 to March 31, 1998, on the contribution for the 1997-98 fiscal year that is deferred to March 31, 1998, shall be paid in seven equal installments commencing on April 1, 1998.

Printed by the Document Publishing Centre
Design: Strategic Marketing and Design
2003

03AN35-5309